

## Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 ERDA-05 AID-05 CEA-01 CIAE-00 CIEP-01

COME-00 DODE-00 EB-07 FPC-01 H-02 INR-07 INT-05 L-02

NSAE-00 NSC-05 OMB-01 PM-03 SAM-01 OES-03 SP-02 SS-15

STR-01 TRSE-00 FRB-03 FEA-01 PA-01 USIA-06 PRS-01

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R 241756Z MAR 75

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 9578

INFO AMEMBASSY OSLO

C O N F I D E N T I A L LONDON 04535

E.O. 11652: GDS

TAGS: ENRG, UK

SUBJECT: NORTH SEA OIL: PETROLEUM REVENUE TAX APPROVED  
BY HOUSE OF COMMONS

REF: LONDON 3953, 3170

1. BEGIN UNCLASSIFIED: FINAL VERSION OF MUCH REVISED  
OIL TAXATION BILL EMBODYING PETROLEUM REVENUE TAX (PRT)  
WAS APPROVED ON MARCH 19 BY HOUSE OF COMMONS. PAYMASTER  
GENERAL DELL REJECTED RENEWED LEFT-WING LABOR AND  
SCOTTISH NATIONALIST PRESSURES FOR A LARGER GOVERNMENT  
"TAKE" AS WELL AS CONSERVATIVE OPPOSITION AMENDMENTS  
FAVORING ADDITIONAL RELIEF FOR SMALLER FIELDS.

2. DELL PROPOSED LAST MINUTE AMENDMENT TO "RING FENCE"  
RULE DESIGNED TO ALLOW INTRA-COMPANY INTEREST TO BE DE-  
DUCTED FOR CORPORATION TAX PURPOSES. GOVERNMENT ALSO  
MODIFIED PROVISION ON LOSSES FROM ABANDONMENT OF A FIELD  
SO AS TO ALLOW OFFSET AGAINST SUBSEQUENT PROFITS FROM  
OTHER FIELDS, RATHER THAN AGAINST PAST PROFITS.

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3. IN DEFENDING GOVERNMENT POSITION AGAINST PARLIAMENTARY CRITICS, DELL STATED THAT 45 PERCENT RATE FOR PRT IS NOT INAPPROPRIATE IN TERMS OF NORWEGIAN PRACTICE AND MAKES UK "TAKE" COMPARABLE TO THAT OF NORWAY AND POSSIBLY A LITTLE HIGHER. CONSERVATIVE OPPOSITION SPOKESMAN PATRICK JENKIN ACKNOWLEDGED GOVERNMENT HAD MOVED LONG WAY FROM FORM IN WHICH PRT ORIGINALLY INTRODUCED AND MADE SOME ATTEMPT TO TAILOR TAX BURDEN ACCORDING TO VARIABLE CIRCUMSTANCES. JENKIN BELIEVED NONETHELESS THAT MANY FIELDS MAY STILL BE HIGHLY MARGINAL AND REMAIN UNDEVELOPED BECAUSE OF PRT. END UNCLASSIFIED

4. COMMENT: LAST MINUTE HMG CONCESSION ON INTRA-COMPANY INTEREST PAYMENTS WAS DELL'S FINAL UNPUBLICIZED CONCESSION TO OIL INDUSTRY. TREASURY APPARENTLY WAS PERSUADED THAT IT STOOD TO LOSE MONEY UNDER PROVISION DISALLOWING INTRA-COMPANY INTEREST PAYMENTS FOR CORPORATION TAX PURPOSES INASMUCH AS IT WOULD FORCE NORTH SEA SUBSIDIARIES OF LARGER COMPANIES TO BORROW INDEPENDENTLY AT HIGHER COST FOR THEIR OWN OPERATIONS RATHER THAN TO CONTINUE TO OBTAIN FUNDS PURSUANT TO PARENT CORPORATION INTERNAL BORROWING MECHANISMS. CARRY FORWARD PROVISION RELATING TO FIELD ABANDONMENT COULD BE OF SUBSTANTIAL IMPORTANCE IN EVENT A COMMERCIAL FIELD BECOMES UNECONOMIC FOR TECHNICAL REASONS.

5. AT END OF DAY ALL PARTIES APPEAR QUITE SATISFIED WITH RESULT OF PROTRACTED BARGAINING ON PRT. HMG HAS ENSURED ITSELF OF A TAX BITE AMOUNTING TO APPROXIMATELY 70 PERCENT OF PROFITS; OIL COMPANIES HAVE OBTAINED SUFFICIENT CONCESSIONS TO MAINTAIN THEIR INCENTIVE TO INVEST IN NORTH SEA DEVELOPMENT; LEFT-WING LABOR AND SCOTTISH NATIONALIST CRITICS HAVE MADE DEBATING POINTS WHICH WILL SERVE THEM IN THEIR OWN CONSTITUENCIES; AND CONSERVATIVE OPPOSITION HAS LAID GROUNDWORK FOR POSSIBLE PRT MODIFICATIONS WHEN TORIES RETURN TO POWER. PAYMASTER GENERAL DELL AND SHADOW ENERGY SECSTATE JENKIN BOTH HAVE WON CONFIDENCE OF OIL INDUSTRY CIRCLES WHILE BOOSTING THEIR PERSONAL STANDING IN EYES OF GOVERNMENT AND PARLIAMENTARY COLLEAGUES.

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## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
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**Current Classification:** UNCLASSIFIED  
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**Disposition Approved on Date:**  
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**Disposition Date:** 28 MAY 2004  
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**Type:** TE  
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